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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JANUARY 21, 1985 VOLUME XXII, NUMBER 3

OPEC's Hold On Oil Prices . . .

Last month's OPEC meeting in Geneva did little to alleviate the downward pressure on prices in spot oil markets. Traders have little confidence that the cartel can defend the current price structure and believe that oil prices will decline (see chart). And while the recent cold snap in North America and Europe may prop up prices for a while, weak worldwide demand, stepped-up production and lower quotes by several non-OPEC producers suggest lower prices before long. What is more, in a scramble for export revenues, it is likely that the poorer OPEC countries will continue to surpass their production quotas, further adding to excess supplies.

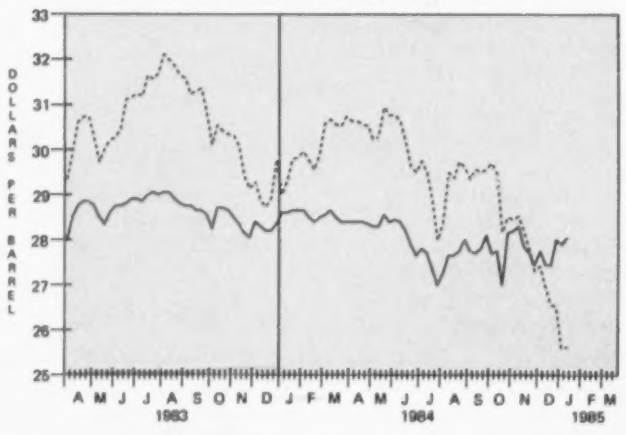
During 1984, the worldwide economic recovery finally brought an end to the slump in petroleum demand. OPEC, however, did not realize any benefit from it. All the growth in consumption was met by non-OPEC producers and inventory drawdowns. Thus, OPEC's share of total non-Communist world production dropped to around 44 percent in 1984 from 45 percent in 1983 and 67 percent in 1973. But the rise in demand was only modest, reflecting continued emphasis on conservation and, in most countries, higher prices of petroleum products. Since all petroleum transactions in international markets are conducted in dollars, most major oil importers did not gain from either the drop in spot prices or from 1983's cut in the official OPEC price. They have to pay more for their oil each time the dollar rises.

. . . Continues To Weaken . . .

For example, while the official price of a barrel of oil is now five dollars lower than it was two years ago, in West Germany this price cut has been more than offset by the 24 percent depreciation of the currency. Thus, for the Germans a barrel of oil purchased from OPEC is now nine percent more expensive than it was two years ago. What is more, since the cost of oil purchased on spot markets has fallen relatively less, oil purchased from this source has gone up even faster—13.6 percent. Italians now pay 18.6 percent more for their spot oil while the French pay 19.4 percent more.

However, Americans benefited fully from all oil price declines in the world market. Thus, declining prices of many petroleum products have been important contributors to curbing inflation. But the lower cost, the acceleration in the pace of business activity and the improved financial positions of U.S. consumers and industry have not significantly revived Americans' appetite for petroleum. Indeed, it would appear that emphasis on improving energy efficiency is as strong as ever.

CRUDE OIL SPOT PRICE FOR ARABIAN LIGHT (LINE) VS. NEARBY FUTURES PRICE (DOT)



While in the third quarter of 1984, inflation-adjusted GNP went up 6.1 percent, year-over-year, total energy consumption rose only 2.3 percent. This means that we are using less and less energy to produce the same level of output. The Department of Energy reports that in the third quarter of last year, only about 44,600 BTUs were needed to produce one dollar of real GNP, down from 46,300 the year before. By contrast, in 1973, it took more than 59,000 BTUs. The improvement is even more pronounced when only petroleum energy is considered—usage has dropped from 27,800 BTUs per each real GNP dollar in 1973, to less than 19,000 in the third quarter of last year.

. . . As Emphasis On Conservation . . .

To be sure, 1984's rise in U.S. oil consumption was the first annual increase since 1978. It was

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paced by double-digit increases in jet fuel consumption and diesel fuel as the transportation industry—airlines, railroads and truckers—posted good-sized increases in traffic, greatly benefiting from the stepped-up pace of economic activity. However, the rise in consumer demand was much more subdued. Last year, home heating oil usage declined from the year-earlier level, despite last winter's cold spell when heating oil consumption jumped 21 percent in January, year-over-year. Demand for motor gasoline ran a meager 1.3 percent above 1983's level. This is surprising, especially in view of the substantial improvement in consumer incomes and a 2.4 percent decline, year-over-year, in gasoline prices during the 11 months ending November, 1984.

American motorists have made major strides in energy conservation. This is important, since motor gasoline consumption accounts for more than 40 percent of the nation's total petroleum usage. While the number of cars now on the nation's roads has increased by more than 25 percent since 1973, consumption of gasoline is about the same now as it was 11 years earlier. The major reason has been the dramatic improvement in the fuel efficiency of the nation's fleet. The average number of miles traveled per gallon of fuel is estimated to have increased by nearly one-third since 1973. Undoubtedly, the sharp rebound in new car sales in 1983 and 1984 has helped accelerate the rise in average fuel efficiency, despite carbuyers' renewed interest in larger cars. According to the Department of Transportation,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 1/16/85	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	170.051	– 1.529	+ 9.594
Loans to Depository Inst.	1.200	– .862	+ .419
Float	.720	– .538	– .578
Total Reserve Bank Credit	183.808	– 2.740	+12.570
Treasury Deposits with Federal Reserve Banks	3.463	– .027	+ .345
Currency in Circulation	180.589	– 2.197	+11.451
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.182	+ 2.197	+ 5.793
	1/16/85		
Member Bank Reserves:			
Total Reserves Held	41.577	+ .337	+ 2.433
Excess (Deficiency)	.714	– .515	+ .239
Net Free Reserves	.501	+ .323	+ .727
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (1/7/85)	559.4	+ 6.7‡	+ 5.6‡
M2 (December '84)	2,375.9	+ 12.2	+ 8.2
M3 (December '84)	2,988.0	+ 13.3	+ 10.2
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 1/18/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.70%	7.90%	8.25%
* Federal Agencies	7.95	8.50	9.05
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	8.52	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.05	8.35	9.15

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.75%	Feb.	7.95%
15- 29 days	7.80	Mar.	7.95
30- 59 days	7.85	Apr.	8.00
60- 89 days	7.90	May	8.10
90-179 days	7.93	Jun.	8.25
180-239 days	8.00	Jul.	8.20
240-270 days	8.00		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	8.10%
30- 89 days	7.85%		
90-120 days	7.90		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,645	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.6	7.1	6.8
Change in Consumer Prices*	Nov '84	2.4%	4.8%	4.8%
Change in Producer Prices*	Dec '84	1.2%	6.0%	2.4%
Civilian Employment (Thousands of Persons)†	Dec '84	106,273	105,932	103,029
Unemployment as % of Civilian Labor Force†	Dec '84	7.2%	7.1%	8.2%
Personal Income*	Dec '84n	$ 3,118	$ 3,102r	$ 2,860
Leading Indicators Composite Index (1967=100)†	Nov '84	166.6	164.5	162.5
Industrial Production Index (1967=100) †	Dec '84n	166.2	165.2r	156.2
Net Change in Consumer Installment Credit †	Nov '84	$ 7.95	$ 6.28	$ 4.82
U.S. Merchandise Trade Balance †	Nov '84	–$ 9.94	–$ 9.18	–$ 7.12
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Dec '84n	1,587	1,554r	1,694
New Construction Expenditures*	Nov '84	$ 322.2	$ 318.8	$ 267.0
Total Business Inventories †	Nov '84n	$ 564.2	$ 563.8r	$ 511.5
Total Business Sales †	Nov '84n	$ 415.0	$ 410.6r	$ 386.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

1985 cars—domestic and foreign—should average about 27½ miles per gallon, up from nearly 27 miles last year and 14.2 miles in 1974.

. . . Holds Down Demand

While earlier in 1984, there had been some indication that demand for residual fuel—a heavy oil used primarily for electric power generation, industrial and commercial space heating and as a ship fuel—was on the road to recovery, during the last several months of the year, consumption once again began posting year-over-year declines as substitution of alternative fuels took place in many industries. For example, coal and natural gas continued to displace petroleum in electric utilities. During the first three quarters of 1984, electric utilities generated 5.4 percent more electricity than during the first three quarters of 1983. However, they utilized 13.1 percent less petroleum during this time period, while their consumption of coal rose seven percent and natural gas by 6½ percent.

It seems a good bet that petroleum consumption will post even smaller gains in 1985 than it did in 1984. While the business expansion will remain solidly on track this year, real GNP growth is likely to slow from 1984's pace—and with it the demand for petroleum. And while prices may be temporarily bolstered by the belated onset of winter, even the cartel's promise to curb the flow of oil may not alter the dismal prospects for stabilizing world oil prices.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/2/85)	160,222	– 1,442	+12,552
New York City (1/9/85)	35,008	– 391	+ 4,225
Commercial Paper (1/9/85)	235,927	+ 2,720	+52,152

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/2/85)	253,185	+ 624	+ 28,366
New York City (1/9/85)	62,361	– 289	+ 4,158

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/2/85)	663,522	+ 2,900	+ 83,140
New York City (1/9/85)	143,889	– 2,468	+ 14,757

Financial Markets

	Friday 1/18/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.95%	– .08	– 1.30
180-Day Bills†	8.35	– .16	– 1.25
Longest Bills†	8.95	– .15	– .97
Recent Issues:			
9⅞s 12/31/86	9.90	– .12	
10⅝s 12/31/88	10.65	– .06	
11⅝s 11/15/94	11.38	– .17	
11¾s 11/15/14	11.50	– .08	
Municipals:			
Bond Buyer—20 Bond Index* (1/17/85)	9.51%	– .09	– .09
Blue List Total ($ Million)	$1,254	– $128	+ $104
30-Day Visible Supply ($ Million)	$1,459	– $ 77	– $369
Total	$2,713	– $205	– $265
Corporates:			
Moody's Aa Composite (1/17/85)	12.52%	+ .09	– .20
30-Day Visible Supply ($ Million)	$ 520	– $ 41	– $464
Stocks:			
Dow-Jones Averages:			
Industrials	1,227.36	+ 9.27	– 31.75
Transportation	577.72	+ 5.20	– 18.73
Utilities	147.57	+ .31	+ 17.18
65 Stocks	497.15	+ 3.54	– 4.53
Standard and Poor's 500 Stocks	171.32	+ 3.41	+ 5.11
N.Y.S.E. Composite Index	99.04	+ 2.05	+ 2.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	126,876	+24,712	+ 29,530

* 46% Taxable equivalent 17.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/18/85	Week Ago
Overnight	8.00%	8.06%
1 month	8.13	8.13
3 month	8.25	8.31
6 month	8.63	8.81
1 year	9.50	9.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.35%	11.40%
Long Term (7 to 15 yrs.)	11.60	11.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/18/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01574	63.53
Canada	.7538	1.3266
Denmark	.08846	11.3050
France	.1030	9.7125
Germany	.3153	3.1713
Italy	.0005128	1950.00
Japan	.003933	254.25
Mexico	.004525	221.00
Netherlands	.2791	3.5833
Switzerland	.3741	2.6728
U.K.	1.1220	.8913

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